So, on April 11, 1923, the royalty bill passed the senate 39 to 25 and is now the law of the state. It had passed the house 104 to 16, a month or more before.

This is a logical system. It taxes as fairly as possible both classes of ore land owners: First those who do not operate, but receive the heritage value in the form of a rent or royalty; Secondly, those who get this heritage value, this potential royalty—by operating their lands themselves.

Instead of 10%, these bills both provide for a tax of only 6%. It is not enough. Not half enough; but future legislatures can correct that defect, and doubtless will.

Soundness of the Minnesota Law

The vital thing about these Minnesota statutes is this: They do not tax the industry, but they do get a part of the **land-value** for the benefit of the people.

The Alabama coal and iron taxes and the Pennsylvania coal tax are a certain per cent on the value of the product. Such taxes burden the industry, increase the price, and are passed on to the consumer.

Our royalty and **net** profit taxes do not increase prices, are not passed on to the consumer. They simply diminish the net profits, or net income of the fortunate owner of the title to our mineral lands.

If the state had retained title, all the rent or royalty, and all that part of the net profits due to the natural location or quality of the one would come to the state.

The Problem of the Future

The problem of the future, not only in Minnesota, but in every state of the Union, is to so frame tax laws as to get as much as possible of this common heritage for the use of all the people.

We have set the example. I hope others will follow.

XI

THE "PITTSBURGH PLAN OF TAXATION"

By THOMAS C. McMAHON
(Chief Assessor, Tax Department, Pittsburgh, Pa.)

Mr. Chairman and Members of the Manufacturers and Merchants Federal Tax League:

Responding to your invitation, I am glad of the opportunity to present to you the Pittsburgh plan of taxation. A wide-spread interest is being manifested throughout the country in this plan, which we believe to be the most progressive system of taxation in any city in the United States. It is especially interesting to those who are engaged in industrial and commercial enterprises.

It should be understood in the beginning that the revenues of the city are practically all derived from taxes on real estate, as is true of all other municipalities in Pennsylvania. We have no personal property tax or tax on machinery.

Cuts Tax on Buildings Down to 50%

The "graded tax law," as it is popularly called, was enacted in 1913. It has been in operation about ten years and is considered now beyond the experimental stage. Under this plan the tax rate levied upon buildings will be cut in two, but to avoid a sudden disturbance of the existing order, the law provided that this should be accomplished by gradual stages. The bill creating this system was passed in the year 1913, and became effective in 1914. It provided that the tax rate on buildings should be reduced at the rate of 10% every three years until the rate on buildings would be 50% of the rate levied on land. This required four periods of reductions, three years apart. Under this plan the tax rate for 1914 and 1915 was fixed at 100% on land and 90% on buildings, or in other words, property which was assessed $10,000 for land and $10,000 for buildings, was taxed $200 on the land and $180 on the buildings. For the years 1916, 1917 and 1918, the rate was 100% on land and 80% on buildings. For the years 1919, 1920 and 1921, the rate was 100% on land and 70% on buildings. And for the years 1922, 1923 and 1924, the rate was 100% on land and 60% on buildings. In 1925 the final reduction on buildings will take place and from that time until there is a change in the law, the rate will be 100% on land and 50% on buildings.

The Matter of Assessments

Practically all of the revenues of the city are derived from real estate and the lowering of the rate on buildings automatically raises the rate on land.

The graded tax law calls for no change in the basis of assessing values of either land or buildings. The legal standard of assessment throughout the state is at full market value, though there are wide variations in various communities from the standard set by law. It is the aim of the present Board of Assessors in Pittsburgh to adhere as closely as possible to full value assessments. A margin is allowed, however, on building assessments because of the greatly increased cost of building within the past few years, as present prices can hardly be regarded as representing normal value.

Scranton Gets Benefit, Too

While this plan of taxation originated in Pittsburgh and the law was passed at the request of the citizens of Pittsburgh, its benefits are not confined to that city. It applies to the second class cities of the state, and Scranton, the only other second class city, is therefore receiving the benefits of this legislation.

The general tax laws of the State of Pennsylvania are, I believe, superior to those of most states. The bulk of the State revenue is raised from a capital stock tax on corporations other than manufacturing corporations and from a four-mill tax on money at interest, which is evaded to a large extent except in the cases of mortgages, which are a matter of public record. The usual state license fee is imposed on automobiles and a law recently passed taxes gasoline and hard coal. We have also an inheritance tax. There is a small mercantile license tax on dealers, which we expect to see repealed in the near future, as it has proven very obnoxious. Practically no taxes are levied anywhere in the state on personal property; household furniture and fixtures, stocks of goods in stores, and checking bank accounts are entirely free of taxation. By special acts of legislation, machinery used in manufacturing is exempted in the cities of Pittsburgh and Scranton, and Philadelphia also enjoys this exemption. This summarizes the general situation with relation to State taxes.

How Pittsburgh Plan Originated

The movement by which this tax plan was secured, originated in the civic bodies of the city, and was finally passed with the help of the present Mayor, Hon. William A. Magee, who was then serving his first term. In fact, the bill was introduced by his brother, Hon. Charles A. Magee, who was a member of the State Senate, and was generally known as "the Magee bill."

It is interesting to note that prior to 1911, Pittsburgh had one of the poorest systems of taxation in the country. It was an absurd and barbarous system, whereby all real estate was classified under three heads, as "Agricultural," "Rural" and "Built-up."

Under the first heading, large tracts of land within the city limits, which were being held out of use for speculation, were classed as "agricultural" and assessed at **one-half** of the full rate. Under the second heading, "houses surrounded by trees and shrubbery" were classed as "rural or suburban" and assessed at **two-thirds** of the full rate. Under the third heading, tenement houses and business blocks were classed as "built-up" and were assessed at full rate.

Injustice of Old System

I happened to be connected with the City Board of Assessors at that time, and was so strongly impressed with the injustice of this classification system, that I determined to bring the absurdity of the condition to public attention. This was done by carrying out strictly the provisions of the law, which developed some striking contrasts, illustrating the unfairness of this method of taxation. For instance, we would have a block of property located in an outlying district, consisting of small lots, improved with four to six-roomed houses, and paying the full rate for "built-up" property, while perhaps directly across the street were large lots occupied by one dwelling and beautified with gardens and hedges, for which the owners were assessed only the two-thirds, or "rural" rate. In each case the properties enjoyed every convenience the city afforded in the way of fire protection, street cleaning, health service, water supply, etc., but the owner of the mansion paid only two-thirds of the rate assessed against the home of the working man across the street, who was required to pay the full tax rate. This system of classification was, however, abolished in 1911, as the result of a campaign by the civic bodies, and full value assessments were established as the legal standard of all real estate.

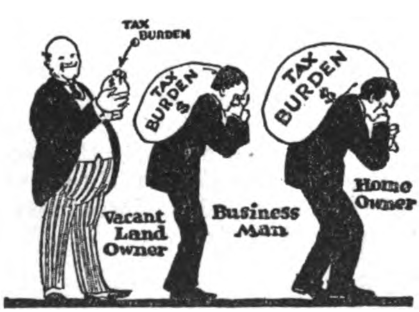
"Graded Tax Law" Is Adopted

During the campaign to secure the abolishment of the old system of classification of property, a great deal of educational work was done, and as a result of this, we were able, in 1913, to secure the "graded tax law," which is practically a reversal of the old system. Instead of penalizing a man for putting up a home, a business house or a factory, he is granted an exemption in his taxes. On the other hand, the man who is holding land out of use for speculation is penalized. The tax burden in Pittsburgh is being gradually shifted from buildings, which represent the product of labor, to the land, the value of which is created by the community and belongs to the community.

Benefits of the "Graded Tax Law"

I have given the subject of taxation careful study for a number of years, and have been in a position to observe the operations of this law in actual practice. I am convinced that it is one of the great merit and is proving beneficial in its effects upon the community as a whole. Among some of the effects of the law which have come to my attention, I would cite the following:

BEFORE THE LAW WAS PASSED



First: It has reduced the taxes on the great majority of homes, as it is only in exceptional cases that the valuation placed upon a home is not equal to or greater than the value of the land. We estimate that not less than seventy thousand home owners have received a direct reduction in taxes from the operation of the graded tax law.

Second: This law has greatly stimulated the building of houses. A comparison recently made with other large cities shows that, taking the total amount of building permits together with the increase in population, Pittsburgh leads all the other cities of her class. This comparison, which was made for the years 1914 to 1920, inclusive, shows that we have had, in proportion to the increase in population, 25% more building than New York, 57% more than St. Louis, 66%

more than Philadelphia, 66% more than Cleveland, 87% more than Buffalo, 186% more than Detroit, and 238% more than Baltimore.

The building boom is still on and during the year ending June 30th, 1923, there were as many building permits issued by the City of Pittsburgh as were issued during any five year period prior to 1918.

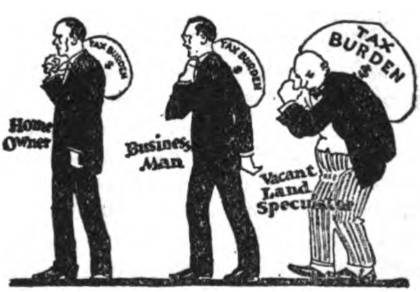
Third: The law has a tendency to stabilize land values and discourage speculation, as vacant or poorly improved land pays a larger share of the taxes through the automatic shifting to the land of the amount taken off of the improvements. The increased tax on land, however, has not been sufficient to check the rise of land values, as a large increase in the city budget last year was entirely taken care of by increased assessments on real estate, and it was not necessary to raise the millage. For the year 1924, we do not anticipate that any increase in the tax rate above that of 1923 will be necessary, although the expenses of the city will be increased, as the new buildings will produce sufficient revenue to take care of this increase.

Fourth: To further illustrate the beneficial results of the graded tax law, we have compiled from our records some comparative figures to show who are the chief beneficiaries under the graded tax law. It is true that this law has encouraged all kinds of building throughout the city, but a study of the matter shows that the home owners are realizing a much greater benefit than any other group of property owners.

Home Owners Benefit Most

For instance, we have taken the two most highly improved blocks in the downtown business section, which are entirely built up and contain many of the finest buildings in the city, and this study shows that in these two blocks we have an assessed land value of $13,146,350, as against an assessed building value of $9,874,000.

AFTER THE LAW WAS PASSED



In a high class residential district in the Fourth Ward, where land values are fairly high, the total assessed land value was only $208,155, while the total assessed building value was $437,900.

A typical block in the workingmen's district in the Thirteenth Ward was also examined and this shows a total assessed land value of only $66,482, as against a total assessed building value of $149,484.

Business Interests Gain, Too

But the benefits, of course, have not been confined to home owners. The commercial and industrial interests of our city are greatly benefited by the Pittsburgh tax plan. This is perhaps most strikingly illustrated when we contrast the complete exemption of all personal property and machinery from taxes under the Pittsburgh plan, with the exceedingly heavy taxes levied upon personal property of large business concerns in competing cities. For instance, we might cite two large manufacturing concerns in one of the leading cities of the middle west, one of which pays taxes on a personal property assessment of $7,705,970 in connection with their plant having a real estate assessment, including land and buildings, of only $3,280,940. In the second instance, another manufacturing concern has the enormous personal property valuation of $1,915,490, while its total real estate valuation is only $539,870. One of the leading department stores of that city is taxed upon a personal property assessment of $1,540,900, which almost equals its real estate assessment of $1,570,630. If these concerns were located in Pittsburgh, none of this personal property would be taxed at all by the city.

Satisfaction with "Graded Tax Law" Grows

Attempts have been made to repeal this law at every session of the Legislature except the last one. These movements were instigated by the big landed interests and in 1915 the bill repealing the law was only defeated after it reached the Governor. Since then the opposition has grown less and less aggressive, and instead of opposing the law, there is a general tendency to work for its further extension, such as its application to the school taxes and a further gradual reduction of the rate on buildings.

It is possible that there will be further efforts to destroy it, but I feel that the plan is now too well established to be overthrown. The present city administration is in favor of the law, the newspapers are unanimous in its support, and the leading civic organizations are giving it enthusiastic backing.

The principle involved in this system of taxation is just, it is based on sound economics, and it will do more to solve the housing problem and abolish slums than anything else. It points the way to better living conditions, especially in our cities.

The advantages of the graded tax law, together with the exemption of machinery and personal property in the city of Pittsburgh, enables our city to offer superior conditions for the owning of homes and for the carrying on of business enterprises, both manufacturing and mercantile, over those of any other large city in the country.